

Message Text

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SUBJ: ECONOMIC SITREP NO. 31, TUESDAY, DECEMBER 14

REF: ROME 20245

1. SUMMARY. ANDREOTTI EXPECTED TO INDICATE TO LABOR LEADERS DECEMBER 15 THE GENERAL ECONOMIC POLICY LINES THE GOVERNMENT INTENDS TO FOLLOW IN 1977. PUBLIC EMPLOYEES' DEMANDS ARE POSING PROBLEM FOR UNIFIED LABOR CONFEDERATION ON EVE OF MEETING WITH GOVERNMENT. SOVIET VICE MINISTER FOR FOREIGN TRADE KOMOROV PRESENTLY IN ROME REQUESTING DOLS 650-700 MILLION MORE IN EXPORT CREDITS WHICH ITALIANS RELUCTANT TO GIVE. LIRA CONTINUES STABLE AND DOLLAR DEMAND REMAINS BELOW NORMAL LEVELS.

2. ANDREOTTI ECONOMIC POLICY FOR 1977. ON EVE OF SECOND MEETING BETWEEN PRIMIN ANDREOTTI AND HIS ECONOMIC MINISTERS WITH UNIFIED LABOR CONFEDERATION LEADERS ON DECEMBER 15, LABOR LEADERS ARE BEING PRESSED BY PUBLIC EMPLOYEE DEMANDS AND BY DEMAND FOR ADJUSTMENTS IN THE WAGE COST-OF-LIVING ESCALATOR WHICH WILL RESULT IN MEANINGFUL REDUCTION IN UNIT COST OF LABOR. MEETING WAS SCHEDULED AT CONCLUSION DECEMBER 4 MEETING IN ORDER FOR GOVERNMENT TO RESPOND MORE SPECIFICALLY TO LABOR REQUEST FOR STATEMENT OF

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ECONOMIC GOALS FOR 1977 AND THE MEASURES

THE GOVERNMENT WILL ADOPT TO ACHIEVE THEM. REJECTING IN PRINCIPLE THE GOVERNMENT'S PROJECTION FOR ZERO GROWTH IN 1977, UNIONS WANT TO HEAR GOVERNMENT PROPOSALS TO INCREASE INVESTMENT AND INCREASE EMPLOYMENT. PRESS SAYS THAT GOVERNMENT POLICY OUTLINE IS LIKELY TO STATE THAT: 1) FURTHER REDUCTION IN THE COST OF LABOR FOR BUSINESSES IS REQUIRED. FROM A PRESENTLY-ESTIMATED INCREASE IN THE UNIT COST OF LABOR OF 22-25 PERCENT FOR 1977, THE MEASURES TAKEN OR DISCUSSED THUS FAR--ABOLISHMENT OF INTRAWEEK/HOLIDAYS, BREAKING COST-OF-LIVING/SEVERANCE PAY LINK, PAYING COST-OF-LIVING INCREASES SEMI-ANNUALLY RATHER THAN QUARTERLY--WOULD REDUCE THAT RATE OF INCREASE OF THE UNIT COST OF LABOR TO ONLY 18 PERCENT, STILL WELL ABOVE THAN THE AVERAGE OF OTHER INDUSTRIALIZED COUNTRIES. 2) IF INCREASES IN COST OF LABOR THROUGH EFFECTS OF ESCALATOR ARE SLOWED, A FURTHER REDUCTION IN THE COST TO BUSINESSES THROUGH FISCALIZATION CAN BE ACHIEVED WHICH WOULD BE FINANCED BY INCREASES IN THE VALUE-ADDED TAX. 3) EXPORTS ARE TO BE ENCOURAGED AND IMPORTS DISCOURAGED. A DRAFT LAW IS EXPECTED TO BE APPROVED AT THE DECEMBER 17 MEETING OF THE COUNCIL OF MINISTERS WHICH WILL REORGANIZE EXPORT CREDIT AND INSURANCE AND RAISE LEVEL OF INSURANCE FROM PRESENT 10 PERCENT OF TOTAL EXPORTS TO 25-30 PERCENT IN LINE WITH ASSISTANCE LEVEL OF OTHER INDUSTRIALIZED COUNTRIES. 4) STRICT CONTROL OVER THE VOLUME OF MONETARY LIQUIDITY AND HIGH INTEREST RATE LEVELS MUST CONTINUE TO BE MAINTAINED. 5) INCENTIVES FOR INVESTMENT ARE TO BE MAINTAINED WITH 10,650 BILLION LIRE IN CAPITAL EXPENDITURE ACCOUNT FOR 1977.

3. PUBLIC EMPLOYEES THREATEN MASSIVE SERVICE DISRUPTIONS. NEGOTIATIONS WHICH WERE RESTARTED AFTER DECEMBER 4 MEETING OF UNION LEADERS AND GOVERNMENT HAVE BROKEN DOWN IN SOME SECTORS WITH PUBLIC EMPLOYEES REJECTION OF GOVERNMENT'S PROPOSED SETTLEMENT. TO THE PUBLIC EMPLOYEES' REQUEST FOR WAGE AND CONCESSIONS WHICH WOULD AVERAGE AN ESTIMATED 30,000 LIRE PER MONTH PER EMPLOYEE BEGINNING JANUARY 1, 1976 AND RUNNING FOR THREE YEARS (TOTAL COST WOULD BE SLIGHTLY MORE THAN ONE MILLION LIRE PER EMPLOYEE), THE GOVERNMENT RESPONDED WITH A WAGE INCREASE OFFER STAGGERED OVER THE THREE-YEAR PERIOD WHICH WOULD COST 570 THOUSAND LIRE TOTAL PER EMPLOYEE (120,000 FOR 1976, 210,000 IN 1977 AND 240,000 IN

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1978). PORTRAYING THE GOVERNMENT PROPOSAL AS COMPLETELY UNACCEPTABLE, PUBLIC EMPLOYEE NEGOTIATORS FOR MINISTRIES HAVE BROKEN OFF TALKS, SOME GOVERNMENT OFFICES HAVE BEEN OCCUPIED BY EMPLOYEES (A COMMON ENOUGH TACTIC BY DISGRUNTLED ITALIAN EMPLOYEES) AND PUBLIC EMPLOYEES ARE THREATENING SYMPATHETIC STRIKE ACTIVITY OVER HOLIDAY SEASON WHICH WOULD DISRUPT PUBLIC SERVICES. ON THE EVE OF UNION LEADERS' MEETING WITH GOVERNMENT, THIS ACTIVITY

PUTS CONSIDERABLE PRESSURE ON UNION LEADERS TO
OBTAIN A GOVERNMENT CONCESSION IN BEHALF OF PUBLIC
EMPLOYEES.

4. SOVIETS ASK FOR FURTHER DOLS 650-700 MILLION IN
EXPORT CREDITS. SOVIET VICE MINISTER FOR FOREIGN
TRADE KOMOROV IS CURRENTLY IN ROME WITH LARGE
INDUSTRIAL EQUIPMENT AND PLANT SHOPPING
LIST WHICH SOVIETS WILLING TO PURCHASE FROM ITALY
IF CREDIT EXTENDED. TO DATE, ITALIANS HAVE EX-
TENDED OVER 1,500 BILLION LIRE IN EXPORT CREDITS TO
THE SOVIET UNION (ABOUT HALF OF WHICH HAVE
BEEN USED), MAKING ITALY, AFTER GERMANY, THE
SOVIET UNION'S LARGEST WESTERN CREDITOR. IN CALL
ON MINFORTRADE OSSOLA,
TO DISCUSS POSSIBLE NEW CREDITS, OSSOLA ALLEGEDLY POINTED
OUT THAT, GIVEN CURRENT ECONOMIC SITUATION, ITALY NOT IN
POSITION TO EXTEND CREDITS UNDER SIMILAR TERMS AS
PREVIOUSLY. AS LARGE BORROWER HERSELF, ITALY WOULD BE
UNABLE EXPLAIN TO HER OWN CREDITORS GROUNDS FOR EXTENDING
LARGE CREDITS TO A THIRD PARTY. THIS PURELY ON ECONOMIC
GROUNDS AND HAS NOTHING TO DO WITH POLITICS. OSSOLA
ALLEGEDLY OFFERED TO DISCUSS EXTENSION OF EXPORT CREDITS
ON THE FOLLOWING CONDITIONS: (A) CREDIT WOULD NOT BE
EXTENDED IN TERMS OF AN OVERALL FIGURE, BUT ON A YEAR-
TO-YEAR BASIS. A CREDIT CEILING WOULD BE ESTABLISHED
FOR EACH YEAR BASED ON THE AMOUNT OF REIMBURSEMENT
RECEIVED (FROM PREVIOUSLY-EXTENDED CREDIT) DURING THAT
SAME YEAR; (B) CREDIT INSTRUMENTS ISSUED BY THE SOVIET
UNION WOULD BE FREELY NEGOTIABLE AND NOT, AS IN THE
PAST, WHETHER FORMALLY OR INFORMALLY, NON-NEGOTIABLE;
AND (C) DURATION OF NEW CREDIT WOULD BE FOR EIGHT YEARS
AND NOT FOR 10-11 YEARS AS IN PAST.

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5. MARKET DEVELOPMENTS. LIRA/DOLLAR RATE DECEMBER 14
FIXED AT 865.40 (COMPARED TO 865.35 DECEMBER 13) ON LOW
DOLLAR DEMAND.

6. CORRECTION. LAST SENTENCE OF PARA 4 SITREP NO. 30
(DECEMBER 13) SHOULD BE CORRECTED TO READ AS FOLLOWS:
"THE CASH EXPENDITURES IN 1977 WILL BE COVERED THROUGH
THAT PORTION OF INCREASED REVENUES IN THE AUSTERITY
PACKAGE EARMARKED FOR INVESTMENT; I.E., 600 BILLION
LIRE FOR AGRICULTURE, YOUTH EMPLOYMENT AND HOUSING."
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